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**FISCAL IMPACT STATEMENT**

**LS 6165**

**BILL NUMBER:** HB 1236

**NOTE PREPARED:** Dec 4, 2003

**BILL AMENDED:**

**SUBJECT:** Housing Cooperative Deductions and Credits.

**FIRST AUTHOR:** Rep. Moses

**Fas Introduced**

**BILL STATUS:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill extends the application of certain property tax deductions and the homestead credit to the owner of a unit in a mutual housing corporation or a housing cooperative.

**Effective Date:** Upon passage; March 1, 2002 (retroactive).

**Explanation of State Expenditures:** Under current law the members and shareholders whose residences are operated by a mutual housing authority or other housing cooperative are considered to be renting their residences. This bill would redefine their status to be that of the owner of their residences, which would make them eligible for deductions from the gross assessed value of their residences used for the computation of real property taxes, and they would also be eligible for certain real property tax credits available to owners of residential property.

This bill would require the Department of Local Government Finance (DLGF) to specify a form and procedure for filing a consolidated application for deductions and one for credits for shareholders that are eligible for any deductions or credits available to an owner of real property.

There is no consensus on the number or location of eligible mutual housing authorities or housing cooperatives. Nineteen Indiana housing cooperatives with 4,302 units are members of the Midwest Housing Cooperative Association (MHCA); another report states that there are 6,200 units operated by housing cooperatives in Indiana.

As an example, the 12 Marion County housing cooperatives which are members of the MHCA were examined. One received a full exemption from real property taxes in pay 2003, and the real property tax

records of another were not immediately available, leaving 10 housing cooperatives with 2,777 units. These housing cooperatives had a pay 2003 assessed value of \$69.7 M and paid \$1.845 M in property taxes. If the provisions of this bill had been in effect for taxes due and payable in pay 2003 the assessed value would have been reduced by a combined homestead deduction of \$34.9 M and an estimated \$1.3 M in additional over-65, blind/disabled, and veterans deductions. This would have resulted in a gross tax of \$953,000, a Property Tax Replacement Credit (PTRC) of \$255,000, and a Homestead Credit of \$81,000. The resulting net tax would have been \$617,000, a reduction of \$1.228 M from that actually paid (a 67% reduction). The average resident of the 10 cooperatives was responsible for a property tax payment of \$664. If the deductions and credits described in this bill were available, the total tax would drop to an average of \$222 for an average reduction of \$442.

This bill allows housing cooperative associations to file for a refund for real property taxes paid in pay 2003 which would not have been assessed if the provisions of this bill had been in effect when pay 2003 assessments were computed. The total amount of the refund for Marion County would be at least the \$1.228 M computed above for 10 of the 11 housing cooperative associations that are not non-profits; statewide, the total refunds possible under this bill could exceed \$2.75 M (assuming that there are 6,200 units in Indiana). This bill requires that the state distribute to the counties the homestead credit that would have been distributed corresponding to the amended tax bills implied by the refunds; the homestead credit distribution would be at least \$81,000 for Marion County and could exceed \$180,000 statewide.

This bill would increase state expenditures for homestead credits; homestead credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented from the General Fund. It is not possible to be more specific about the total impact of this bill since the number of eligible cooperatives is not known, and it is not known if the cooperatives examined here are typical of other housing cooperatives.

*Estimation Issues:* It is not known how many authorities or cooperatives might qualify for these deductions and credits. The Indiana Housing Finance Authority (IHFA) has no records that the articles of incorporation of a mutual housing authority as defined under IC 5-20-3-3 were approved, and no such associations are currently known to exist. There are, however, 19 housing cooperatives in Indiana which belong to the Midwest Association of Housing Cooperatives, totaling 4,302 units; other estimates place the total number of units statewide at 6,200.

*Example:* Housing cooperatives are concentrated in Indianapolis. Of the 19 Indiana housing cooperatives (with 4,302 units) operated by members of the MAHC, 12 units (with 2,933 units) are in Marion County. Real property tax records for one of these cooperatives could not be located, and one cooperative is tax-exempt, leaving 10 cooperatives which paid real property taxes in pay 2003. These cooperatives, with 2,777 units, had an assessed value of real property of \$69.7 M and paid \$1.845 M in property taxes. If all the residents of these cooperatives had been eligible for the deductions and credits in this bill, and if the residents on the average qualified for the over-65, blind/disabled, and veterans deductions at the same rate as other recipients of the homestead deduction in Marion County, the assessed value would have been reduced by a homestead deduction of \$34.9 M and by an additional \$1.3 M for over-65, blind/disabled, and veterans deductions. The reduction in assessed value in Marion County would have increased the tax rate by 0.1% on the average (from 2.8363% to 2.8391%) resulting in a gross tax of \$953,000, PTRC of \$255,000, and a Homestead Credit of \$81,000. The resulting net tax would have been \$617,000, a reduction of \$1.228 M from that actually paid (or a 67% reduction). This reduction of \$1.228 M, less the Homestead Credit of \$81,000, would be shifted to other taxpayers.

**Explanation of State Revenues:** The aggregated deductions would reduce the assessed value of the real

property operated by the mutual housing association or cooperative and would therefore reduce the income to the State Fair and State Forestry funds. These reductions, however, cannot be currently estimated.

**Explanation of Local Expenditures:** There are 10 counties that currently provide a locally funded homestead credit. These counties include Allen, Madison, Marion, Miami, Monroe, Perry, St. Joseph, Spencer, Tippecanoe, and Vanderburgh.

If additional taxpayers in these 10 counties receive the state homestead credit as a result of this provision, they will also receive the local homestead credit. This additional credit cannot currently be estimated.

This local homestead credit is paid for with County Option Income Tax (COIT) proceeds. The amount of COIT revenue available for distribution to local civil taxing units would be reduced by the amount spent for local homestead credits. The additional local homestead credits would, therefore, reduce distributions to the civil taxing units in these counties. This reduction cannot be estimated at this time.

**Explanation of Local Revenues:** Refunds for real property taxes paid in 2002 Pay 2003 authorized by this bill would be paid from 2003 Pay 2004 revenues. These refunds would reduce the revenue available for local government units that receive funds from real property taxes. This reduction would be at least \$1.228 M for Marion County, but other counties would also be affected and might amount to \$2.75 M statewide.

The reduction in assessed value would affect the income of local cumulative funds, but the effect cannot be estimated at this time.

**State Agencies Affected:** State Fairgrounds; DNR Division of Forestry; Department of Local Government Finance.

**Local Agencies Affected:** County Assessors, County Auditors, and County Treasurers; local units receiving funds from real property taxes; local civil taxing units receiving COIT funds; local cumulative improvement funds.

**Information Sources:** Midwest Association of Housing Cooperatives; LSA property tax database.

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